
Appalachian Regional Commission

Financial Statements and Independent Auditors' Report

September 30, 2003

APPALACHIAN REGIONAL COMMISSION

SEPTEMBER 30, 2003

TABLE OF CONTENTS

	<i>PAGE</i>
Independent Auditors' Report	1
Balance Sheet.....	2
Statement of Operations and Changes in Net Position	3
Statement of Cash Flows.....	4
Notes to the Financial Statements.....	5
Additional Information	11

To the Commission Members
Appalachian Regional Commission
Washington, DC

Independent Auditors' Report

We have audited the accompanying balance sheet of the Appalachian Regional Commission as of September 30, 2003, and the related statement of operations and net position and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

M.D. Oppenheim & Company, P.C.

Silver Spring, Maryland
January 23, 2004

APPALACHIAN REGIONAL COMMISSION

Balance Sheet September 30, 2003

ASSETS

Current assets

Fund balance with Treasury	\$	57,222,347
Cash		59,981

Total cash		57,282,328
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Accounts receivable		400,000
Business development revolving loan funds		26,510,471
Advances to grantees		1,042,266

Total current assets		85,235,065
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Equipment and software (net)		39,292
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TOTAL ASSETS		85,274,357
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LIABILITIES AND NET POSITION

Current liabilities

Accounts payable		2,513,036
Center for Disease Control and Prevention grants		523,053
Accrued pension liability		574,422
Accrued leave		324,639
Accrued payroll and taxes payable		175,160
Other accrued liabilities		39,553

Total current liabilities		4,149,863
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Net position		81,124,494
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TOTAL LIABILITIES AND NET POSITION	\$	85,274,357
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See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION
Statement of Operations and Changes in Net Position
Year ended September 30, 2003

REVENUES		
Appropriations	\$	70,826,675
Less: Allocation transfer out		(26,854,510)
Appropriations (net)		43,972,165
Appalachian Development Highway System administrative revenue		612,804
State contributions		2,959,000
Other revenue		418,279
Total revenues		47,962,248
EXPENSES		
Area development grants		34,751,957
Office of the Federal Co-Chair and Inspector General		4,342,780
Commission management and administration		7,040,681
Total expenses		46,135,418
NET INCOME		1,826,830
Net position, beginning of period		79,297,664
NET POSITION, END OF PERIOD	\$	81,124,494

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION

Statement of Cash Flows Year ended September 30, 2003

Cash flows from operating activities:

Net income	\$ 1,826,830
Adjustments to reconcile income to net cash provided by operating activities:	
Depreciation	29,980
Changes in assets and liabilities:	
Accounts receivable	(397,414)
Business development revolving loan funds	(22,092)
Advances to grantees	1,894,067
Accounts payable	1,264,349
Center for Disease Control and Prevention grants	123,053
Accrued pension liability	574,422
Accrued leave	(55,589)
Accrued payroll and taxes payable	40,462
Other accrued liabilities	4,290

Net cash provided by operating activities	5,282,358
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Net increase in cash	5,282,358
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Cash at beginning of year	51,999,970
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CASH AT END OF YEAR	\$ 57,282,328
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Supplemental disclosures:

Income taxes paid	\$ 0
Interest paid	\$ 0

See accompanying notes and Independent Auditors' Report.

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note A – Organization and Mission

The Appalachian Regional Commission (ARC) was established under the Appalachian Regional Development Act of 1965, as amended, the Appalachian Regional Development Reform Act of 1998 and the Appalachian Regional Development Act Amendments of 2002. ARC is a regional development agency designed to function as a federal, state, and local partnership. ARC is not a federal executive branch agency (as defined in Title 5 and 31 of the United States Code) and by the Department of Justice.

ARC is comprised of a federal member (Federal Co-Chair), appointed by the President, and the governors of each of thirteen states in the Appalachian region. The state members elect a State Co-Chair from their members. There is an Executive Director and Program and Administrative Offices that implement the policies and procedures established by the co-chairmen. ARC personnel are comprised of federal and non-federal employees.

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is a 200,000 square mile region from the Appalachian Mountains in Southern New York to Northern Mississippi. The ARC programs affect approximately 410 counties located in thirteen states including all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

Note B – Summary of Significant Accounting Policies

- 1. Major Programs** – ARC is authorized to fund Area and Other Development programs including education, workforce training, water and sewer construction, housing, leadership development, small business start-ups and expansions and development of health care resources. In executing its programs, local communities and federal agencies provide administrative and technical services. ARC utilizes approximately 10 federal departments and agencies to administer, disburse funds, and account for its infrastructure and other programs including the Department of Housing and Urban Development, Environmental Protection Agency, Rural Development Agency, and the Department of Health and Human Services. ARC is responsible for allocating funds to the projects and the management and administration of all projects.
- 2. Reporting Entity** – These financial statements include all of the activities of ARC including the Office of the Federal Co-Chair, Area Development Programs and administrative/operational activities performed by ARC.

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note B – Summary of Significant Accounting Policies (continued)

3. **Basis of Accounting** – The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Appropriations are recognized as revenues when they are received.
4. **Financing Sources** – ARC receives annual no-year federal appropriations to provide grants to the entities within the Appalachian Region and to fund its operations. The state members also contribute funds to ARC operations. Funds are allocated to thirteen states and are available until expended. States can generally decide how their allocations will be used for ARC programs.
5. **Fund Balance with Treasury** – Cash receipts and disbursements for operations and the Area Development Programs are processed by the Department of Treasury. Funds held by the Department of Treasury represent funds available for operations.
6. **Cash** – ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the Department of Treasury.
7. **Accounts Receivable** – Management considers all receivables to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.
8. **Advances to grantees** – Payments to grantees are recorded as expenses when disbursements are made. Material amounts of unexpended grant funds in the hands of grantees at the end of the fiscal year are reclassified as advances.
9. **Equipment and Software** – Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of three to five years.
10. **Accrued Leave** – Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current accrual at current pay rates.
11. **Retirement Plans** – ARC federal employees participate in federal retirement plans. ARC non-federal employees participate in the ARC Pension.

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note B – Summary of Significant Accounting Policies (continued)

12. **Accrued Pension Liability** – ARC recognizes and records a liability for post-retirement benefits other than pension in accordance with the Statement of Financial Accounting Standards (SFAS) No. 106, *Employer's Accounting for Post-retirement Benefits Other Than Pensions*.
13. **Use of Estimates** – The preparation of the accompanying financial statements requires management to make estimates and assumptions about certain estimates included in the financial statements. Actual results will invariably differ from those estimates.
14. **Income Tax Status** – ARC is exempt from federal income tax under § 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

Note C – Business Development Revolving Loan Funds

ARC established Business Development Revolving Loan Fund (RLF) grants to provide pools of funds made available to grantees to create and retain jobs. Various entities (grantees) within the thirteen states were provided with loan capitalization funds. These funds are loaned to borrowers who qualify with program objectives. The earnings (interest and fees) net of expenses (including bad debt) are available to the grantees to make additional loans.

Grantees return the funds to ARC when they terminate the RLF. Grantees that have income in excess of expenses (net income) return the excess funds to ARC and ARC deposits the net income funds in the U.S. Treasury general fund. Grantees that have net losses return the funds to ARC net of the losses. Grant balances that are returned are added back to the state allocation.

The following summarizes the RLF balances at September 30, 2003:

<u>RLF Funds Obligated</u>	<u>RLF Funds Advanced</u>	<u>RLF Loans Outstanding</u>
<u>\$ 31,322,784</u>	<u>\$ 26,510,471</u>	<u>\$ 31,374,838</u>

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note D – Equipment and Software

Equipment and software consists of the following at September 30, 2003:

Equipment	\$	69,194
Software		48,422
Subtotal		<u>117,616</u>
Less: Accumulated depreciation		<u>(78,324)</u>
Equipment and software (net)	\$	<u><u>39,292</u></u>

Depreciation expense for the year ended September 30, 2003 is \$29,980.

Note E – Grant Transfers to Other Federal Agencies

ARC transfers funds to basic agencies to oversee economic and social development projects in the Appalachian Region. ARC records the funds transferred as contra revenue at the time the transfer is made. In FY 2003, ARC transferred \$ 26,854,510 as follows:

Department of Transportation	\$	473,686
Department of Education		576,805
Economic Development Agency		2,384,540
Department of Energy		(46,811)
Department of Agriculture		15,633,968
Department of Housing and Urban Development		6,893,076
Department of Health & Human Services		939,246
	\$	<u><u>26,854,510</u></u>

Note F – Retirement and Other Post-Employment Benefit Plans

Federal

ARC participates in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The CSRS and FERS plans are administered by the United States Office of Personnel Management (OPM). ARC's makes contributions at rates applicable to agencies of the federal government. The contributions do not equal the full service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service costs requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM.

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note F – Retirement and Other Post Employment Benefit Plans (continued)

The excess of total pension expense over the amount contributed by ARC and ARC employees represents the amount which must be financed directly by OPM. ARC does not recognize in its financial statements these excess amounts as they are deemed to be immaterial.

Contributions to these plans for FY 2003 were \$45,358 and \$44,809 for CSRS and FERS, respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. Contributions to these plans for FY 2003 were \$42,437 and \$2,437 for FEHB and FEGLI, respectively.

ARC does not report in its financial statements CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

ARC also contributed \$9,987 to the Federal Thrift Savings plan for all eligible employees for the year ended September 30, 2003.

Non-Federal

ARC has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. The plan was closed in February 2000 to further entry. Plan information consists of the following:

Benefit obligation at September 30, 2003	\$ (9,927,601)
Fair value of plan assets at September 30, 2003	3,523,136
Funded status	<u>\$ (6,404,465)</u>

Accrued benefit cost recognized in the balance sheet	\$ 574,422
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Weighted-average of assumptions as of September 30, 2003

Discount rate	5.25%
Expected return on plan assets	7.50%
Rate of compensation increase	4.08%

Benefit costs	\$ 995,636
Employer contribution	\$ 421,214
Benefits paid	\$ 788,761

APPALACHIAN REGIONAL COMMISSION

Notes to Financial Statements Year ended September 30, 2003

Note F – Retirement and Other Post-Employment Benefit Plans (continued)

ARC also maintains a 401(k) plan covering substantially all non-federal employees. ARC contributed \$134,219 for the year ended September 30, 2003.

Note G – Lease

ARC's lease for its office space provides for increases in annual base rent based on consumer price index increases, and payment of a portion of the increases in building operating expenses and real estate taxes. The lease commenced on April 30, 1996 and extends through December 31, 2006. Future minimum lease payments required under this lease are as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2004	\$ 570,000
2005	570,000
2006	570,000
2007	142,500
Total	<u>\$ 1,852,500</u>

Additional Information

APPALACHIAN REGIONAL COMMISSION

Additional Information

Year ended September 30, 2003

Appalachian Development Highway System (Appropriated Funds held by the U.S. Department of Transportation)

Congress authorized approximately \$8 billion for the construction of the Appalachian Development Highway System (ADHS) through fiscal year 2003. When it is complete, there will be a 3,025 mile regional system. The purpose of the ADHS is to generate economic development in previously isolated areas, supplement the national interstate system, connect Appalachia to the interstate system, and provide access to the Appalachian Region.

The U.S. Department of Transportation (USDOT) funds the ADHS primarily through the Highway Trust Fund, from which Congress authorizes annual obligation ceilings for the program. Periodically, additional funds may be provided by direct appropriation to the DOT. ARC exercises policy and programmatic control over the ADHS, including the responsibility to set policy for allocating funds to the states, and DOT is accountable for the funds. The program includes flexibility for states to use some highway funds for access road development, and ARC exercises approval for such projects.

The following is a summary of the balances and activity related to the ADHS for FY 2003:

	Unexpended Authority as of 10/1/2002	FY 2003 Authorizations	FY 2003 Expenditures	Unexpended Authority as of 9/30/2003
DOT				
Appropriations	\$	\$ 186,778,000	\$	\$ 186,778,000
Highway Trust Fund Obligation Ceiling	815,481,671	433,215,674	(310,239,391)	938,457,954
Total	\$ 815,481,671	\$ 619,993,674	\$ (310,239,391)	\$ 1,125,235,954

Status of budgetary resources as of September 30, 2003:

	Obligated Balance	Unobligated Balance	Total
DOT Appropriations	\$ 38,758,524	\$ 148,019,476	\$ 186,778,000
Highway Trust Fund Obligation Ceiling	540,768,164	397,699,790	938,457,954
	<u>\$ 579,526,688</u>	<u>\$ 545,719,266</u>	<u>\$ 1,125,235,954</u>

APPALACHIAN REGIONAL COMMISSION

Additional Information

Year ended September 30, 2003

Federal Budgetary Data

The following summarizes the budgetary data related to ARC's federal appropriations for the year ended September 30, 2003:

BUDGETARY RESOURCES

Budget authority – appropriation	\$ 71,290,000
Net transfers	(26,854,510)
Unobligated balance brought forward October 1	6,768,028
Spending authority from offsetting collections	1,134,720
Advance received	150,000
Recoveries of prior year obligations	2,278,322
Permanently not available	(463,385)
Total budgetary resources	<u>54,303,175</u>

STATUS OF BUDGETARY RESOURCES

Obligations incurred	\$ 48,149,398
Unobligated balance	<u>6,153,777</u>
Total budgetary resources	<u>\$ 54,303,175</u>